



REPORT OF EXAMINATION

UNIGARD SECURITY INSURANCE COMPANY

Seattle, Washington

December 31, 1995

State Participating:
Washington

UNIGARD SECURITY INSURANCE COMPANY

CHIEF EXAMINER AFFIDAVIT

I certify that I have reviewed the Report of the Financial Examination of UNIGARD SECURITY INSURANCE COMPANY of Seattle, Washington as of December 31, 1995.

Jacqueline L. Gardner, CFE, FLMI
Chief Insurance Examiner

Date

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Seattle, Washington
July 11, 1997

The Honorable Robert E. Wilcox
Chairman, NAIC Financial Condition(EX 4)
Sub-Committee, NAIC Secretary, Western Zone
Utah Department of Insurance
State Office Building, Room 3110
Salt Lake City, UT 84114-1201

The Honorable Linda Kaiser
NAIC Secretary, Northeastern Zone
Pennsylvania Department of Insurance
Commonwealth of Pennsylvania
1326 Strawberry Square
Harrisburg, PA 17120

The Honorable James H. Brown
NAIC Secretary, Southeastern Zone
Louisiana Department of Insurance
P.O. Box 94214
Baton Rouge, LA 70804-9214

The Honorable Mark Boozell
NAIC Secretary, Midwestern Zone
Illinois Department of Insurance
320 West Washington Street, 4th Flr
Springfield, IL 62767

The Honorable Deborah Senn
Insurance Commissioner
State of Washington
Insurance Building
P. O. Box 40255
Olympia, WA 98504-0255

Dear Commissioners:

In accordance with your instructions and in compliance with statutory requirements, an Association examination has been made of the corporate affairs and financial condition of:

UNIGARD SECURITY INSURANCE COMPANY
of
Seattle, Washington

and this report of examination is respectfully submitted showing the condition of the Company as of December 31, 1995.

SCOPE OF EXAMINATION

An Association examination of Unigard Security Insurance Company, hereinafter referred to as the Company or Unigard Security, was conducted by an insurance examiner from the state of Washington and covers the period from January 1, 1991 through December 31, 1995. Significant transactions and events that occurred subsequent to the date of the examination were also reviewed. The previous examination was conducted as of December 31, 1990 by examiners from the states of Nevada and Washington.

A full scope Association examination was made to assess the financial condition and corporate affairs of the Company and to report any material, adverse findings. The examination was conducted in accordance with standards established by the National Association of Insurance Commissioners (NAIC) and statutes, rules and regulations of the state of Washington.

The examination was conducted concurrently with the Association examination of Unigard Insurance Company of Bellevue, Washington, a former affiliate domiciled in the state of Washington.

Various aspects of the Company's operating procedures and financial records were reviewed during the course of this examination as considered necessary. Asset valuations were verified and all known liabilities were substantiated. Comments and any adverse findings applicable to the examination are included in this report under the appropriate captions.

Work papers of the Company's independent auditors were utilized where possible in the testing and verification of account balances.

INSTRUCTIONS

The Company is instructed to hold its Shareholders' meeting in the first four months of the year as required by RCW 48.07.040.

RECOMMENDATIONS

Based on the findings of the examiner, it is recommended that:

1. The Company formalize its cost sharing agreement with John Hancock Management Company.
2. The Company negotiate a custodial agreement with John Hancock Mutual Life Insurance Company for the safekeeping of those bonds that are kept in the vault in Boston.
3. The Board of Directors review completed Conflict of Interest statements submitted by Directors, Officers, and key employees.

HISTORY AND CAPITALIZATION

The Company's original Articles of Incorporation were filed with The Secretary of the State of Washington on April 6, 1901 under the corporate name Northwestern Mutual Fire Association. The original Certificate of Authority to write fire insurance on a mutual assessment plan was issued on April 18, 1901 by the Insurance Commissioner of the state of Washington. In 1906, the Company was given authority to write nonassessable policies. In 1928, the Northwest Casualty Company was organized by the Association as a wholly owned affiliate to write casualty insurance. Following the enactment of multiple line underwriting legislation by all states in 1955, the name of the Association was changed to Northwestern Mutual Insurance Company and Northwest Casualty Company was merged with the parent company. On May 3, 1971, the Company adopted the name "Unigard Mutual Insurance Company".

On September 30, 1984, after complying with RCW 48.09.350, and with the approval of the Washington State Insurance Commissioner and the policyholders, Unigard Mutual Insurance Company converted from a mutual company to a stock insurance company. All of the outstanding preferred and common stock of the Company was purchased by Hanseco Insurance Company, a subsidiary of John Hancock Mutual Life Insurance Company, in exchange for the infusion of \$75 million in Capital. The name of the Company was changed thereafter to Unigard Security Insurance Company (USIC). On December 31, 1984, Hanseco's ownership was transferred to John Hancock Property and Casualty Holding Company.

On December 10, 1993, after receiving appropriate regulatory approval, USIC sold to Winterthur U.S. Holding, Inc., 100% of the stock of its wholly owned subsidiary, Unigard, Inc., and its wholly owned

subsidiaries; Unigard Insurance Company (UIC), Unigard Indemnity Company (UID), Unigard Service Corporation, and Unigard Service Corporation of California, and transferred to UIC as part of the sale assets and liabilities related to USIC's continuing operations business. (USIC is currently in a run off status).

As part of the sale, USIC entered into a quota share reinsurance agreement with UIC and UID. Pursuant to the terms of this agreement, 100% of the reserves for losses, loss adjustment expense and unearned premiums relating to USIC's continuing operations were ceded to UIC and 100% of all continuing operations business written subsequent to July 1, 1993 continues to be ceded to UIC, net of collectible third party reinsurance.

In connection with the foregoing, USIC entered into a service agreement with UIC, whereby UIC will service continuing operations policies covered under the quota share reinsurance agreement.

MANAGEMENT AND CONTROL

Unigard Security's stock is 100% owned by John Hancock Property and Casualty Holding Company, a holding company incorporated under the laws of the State of Delaware.

The Articles of Incorporation vest the management and control of the affairs of the Company in the Board of Directors which is to consist of not less than five and not more than seventeen members. As of the examination date there were seven board members.

Directors and Officers serving the Company as of December 31, 1995 were as follows:

<u>Directors</u>	<u>Business Association</u>	<u>Residence</u>
Thomas Egbert Moloney, Chairman	Chief Financial Officer John Hancock Mutual Life Insurance Company	Holliston, MA
Richard Alan Brown	Senior Associate Controller and General Director, John Hancock Mutual Life Insurance Company	Medway, MA
Kendall Pierce Morgan	Financial Officer, John Hancock Mutual Life Insurance Company	Attleboro, MA
Barry Louis Shemin	Senior Vice President and Actuary, John Hancock Mutual Life Insurance Company	Wayland, MA
Michael Hunt Studley	General Counsel, John Hancock Property and Casualty Holding Company	Hingham, MA
Paul Leonard Sweeney	President, John Hancock Property and Casualty Holding Company	Newton, MA
Gregory Peter Winn	Vice President, John Hancock Mutual Life Insurance Company	Sherborn, MA

<u>Officers</u>	<u>Title</u>
Paul L Sweeney	President
Michael H. Studley	General Counsel and Corporate Secretary
Elaine Landahl	Assistant Vice President and Assistant Secretary
Barbara McLaughlin	Assistant Vice President
Evelyn Lee	Assistant Secretary
Meredith Lehr	Assistant Secretary
Catherine E. Kietzman	Assistant Secretary
Janice M. Roussel	Assistant Secretary
Pamela Sellers-Hoelsken	Treasurer
Warren Boise	Assistant Treasurer
Peter Mitsopoulos	Assistant Treasurer
Theodore R. Olson	Assistant Treasurer
Kathleen McDonald	Assistant Treasurer
Nancy K. Mak	Assistant Treasurer
Myles Tilley	Assistant Treasurer
William Hutt	Assistant Vice President

CORPORATE RECORDS

Minutes of the Board of Directors, Stockholders and Finance Committee meetings were reviewed for the period covered by this examination. With the exception of one year, the Shareholder meeting was held during the first four months of the year as required and a quorum was present.

PARENTS, SUBSIDIARIES, AND AFFILIATES

As a member of a holding company system, holding company statements are required and have been filed on an annual or as required basis with the Washington Insurance Commissioner. The statements show the affiliates of the Company and the ultimate controlling parent.

Intercompany Service Agreements

The Company has a tax sharing agreement with John Hancock Property and Casualty Holding Company (Holdings). The Company's federal income tax return is consolidated with the John Hancock Insurance Companies. The allocation of taxes is based upon a separate return calculation resulting in a tax charge or refund of not more than the amount the Company would have paid or received if it had filed on a separate return basis. The Company is paid for any tax credits, losses or loss carryover generated by it to the extent actually used in the consolidated return.

There is an unwritten service agreement between John Hancock Management Company (JHMCO) and the Company, Holdings, John Hancock Property and Casualty Company (JHPC) and John Hancock Insurance Company of Bermuda (JHIB). There are no active employees of the Company, Holdings, JHPC or JHIB, and the primary function of JHMCO is to manage the business of the Company. At the request of the examiner, this agreement is currently being formalized and filed with the Washington Insurance Commissioner.

There is an unwritten agreement between the Company and John Hancock Mutual Life Insurance Company (JHMLIC) pertaining to the safekeeping of some of the Company's bonds in the vault of JHMLIC in Boston.

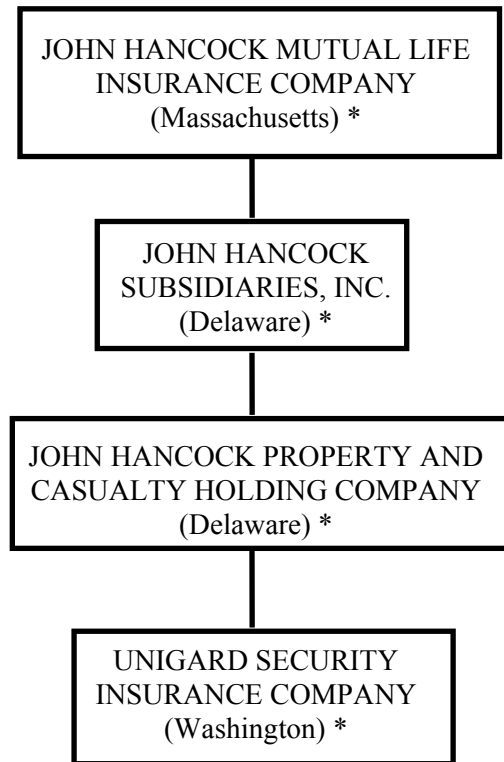
Dividends to Stockholders

Stockholder dividends were approved by the Board of Directors and reflected in the minutes each year. The amounts paid were within the limits for ordinary dividends and did not appear to violate any other statute.

<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
6,000,000	6,000,000	8,500,000	7,000,000	6,600,000

The following Organizational Chart, taken in part from the filed 1995 Annual Statement, displays the upstream relationship of Unigard Security Insurance Company with its ultimate parent, John Hancock Mutual Life Insurance Company

ORGANIZATIONAL CHART



* State of Incorporation

CONFLICT OF INTEREST

Unigard Security has the same Conflict of Interest procedure that applies to the companies within the John Hancock group. The forms for each Director and Officer were reviewed and no conflicts were noted. No employees forms were reviewed as the Company has no employees. All work is performed by employees of John Hancock Management Company - Seattle. The Board of Directors' minutes did not document review of statements, though the Board members had all completed a form.

INTERNAL SECURITY

The Company is a named insured on various insurance policies that provide protection against certain property and liability losses which are purchased by the parent, John Hancock. Policies providing property coverage for buildings and contents, comprehensive commercial general liability were in effect during the period covered by the examination.

Fidelity insurance is extended to all affiliated Companies through a Blanket Bond which provides aggregate coverage up to \$25,000,000. The company size of the combined Life and Property and Casualty groups exceeds the scale of the fidelity insurance coverage worksheet in the NAIC Examiner's Handbook. The coverage provided exceeds the maximum amount recommended in the NAIC Examiner's Handbook. The Company does not have Directors and Officers Liability and Errors and Omission Insurance Coverages (D&O and E&O). However, the Company has amended its Articles of Incorporation and Bylaws to include an indemnification provision covering directors and officers.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in all states except New Jersey and the District of Columbia. It is also licensed to write business in the Dominion of Canada and Provinces of Alberta, British Columbia and Ontario. Its license to write business in the province of Alberta is restricted to discontinuing (run-off) business only and in Ontario is restricted to reinsurance business only.

Certificates of Authority authorizing the Company to transact business in the above named jurisdictions were reviewed for the period under examination and were found to be in effect.

GROWTH OF COMPANY

The growth of the Company for the past five years is reflected in the following exhibit prepared from filed annual statements and as adjusted by this examination:

(000's Omitted)

<u>Year</u>	<u>Assets</u>	<u>Reserves & Liabilities</u>	<u>Unassigned Funds</u>	<u>Premiums</u>
1990	\$573,375	\$448,058	\$ 317	\$ 177,131
1991	541,801	411,095	5,705	157,857
1992	534,822	396,898	12,924	151,527
1993	336,933	179,748	32,185	95,313
1994	306,047	148,447	32,600	0
1995	312,648	152,751	34,897	0

REINSURANCE

Pursuant to the sale agreement of December 10, 1993, the Continuing Operations business is serviced through Unigard Insurance Company, a former affiliate. This includes, but is not limited to, the management of the reinsurance associated with the Continuing Operations, both Direct, Assumed and Ceded.

Reinsurance Ceded:

Continuing Operations - Direct, Assumed and Ceded - 100% Quota Share Agreement

Reinsurance Assumed:

The Company has retrocessional treaties with two major reinsurers covering a discontinued book of reinsurance assumed business.

In 1983, the management of Unigard Security Insurance Company directed that the Company discontinue the majority of its assumed treaty reinsurance. Most contracts were cancelled during the period from September 1983 through June 1984. The remaining treaties, comprising a book of business of approximately \$5 million in annual premium, were canceled subsequently.

Beginning January 1, 1985, the Company retained no net exposure on this assumed treaty book of business. In addition to the previously existing retrocession program, Unigard has also acquired various covers to assure that all potential exposures are carried outside the Unigard group. A significant portion of these retrocession covers is placed with the John Hancock Insurance Company of Bermuda, Ltd. (JHIB), a subsidiary of Unigard Security's parent, John Hancock Property and Casualty Holding Company.

The previously existing retrocession program is summarized below.

<u>Property</u>	<u>Company Retention</u>	<u>Reinsurer's Limit</u>
First Catastrophe	\$500,000 plus 5% of excess (\$25,000)	95% of \$1,500,000 excess of \$500,000
Second Catastrophe	5% (\$100,000)	95% of \$2,000,000 excess of \$2,000,000
Third Catastrophe	5% (\$100,000)	95% of \$2,000,000 excess of \$4,250,000
Fourth Catastrophe	5% (\$100,000)	95% of \$2,000,000 excess of \$6,250,000
First Prop. Retro	Minimum 50% total maximum liability	Maximum of \$250,000
First Property Retro Catastrophe	Minimum 50% total	Maximum \$250,000
<u>Casualty</u>		
Excess of loss Clash Cover	\$250,000 (*)	\$1,250,000 excess of \$250,000
Excess of loss	\$100,000 (**)	\$900,000 excess of \$100,000
<u>Marine and Aviation</u>		
Excess of loss	\$250,000	\$250,000 excess of \$250,000
<u>Foreign</u>		
First Excess	\$250,000	\$750,000 excess of \$250,000
Second Excess	Nil	\$1,000,000 excess of \$1,500,000
<u>Combination Property and Casualty</u>		
Contingency Retro	\$1,000,000(***)	\$3,000,000 excess of \$1,000,000

* A claim cannot be made unless a claim is made by two or more client companies on the same loss occurrence.

** This retention may be included toward clash retention.

*** This retention may include retention under catastrophe and clash covers.

The more recently placed covers, designed to eliminate Unigard Security's net liability are described below:

Reinsurance Management Program

The Company has entered into an arrangement with a company whereby various specifically identified treaties are reinsured 100%. This agreement covers exposures during the period October 1, 1983 through December 31, 1984. Of approximately 800 treaties in force during this period, 616 were included in this agreement.

Aggregate Excess of Loss Cover:

An aggregate excess of loss cover had been placed with an authorized Washington Reinsurer. Limits were \$94.1 million in excess of \$87.9 million loss reserves on the 1970 - 1984 underwriting years for losses paid 7-1-84 and subsequent. The limit on this policy was reached during the period under examination.

John Hancock Insurance Company of Bermuda, Ltd. - (JHIB)

The Company has two reinsurance ceded contracts with JHIB. One contract involves the cession of all remaining unearned premium and loss and loss adjustment expense reserves as of January 1, 1985, along with all subsequent premiums written and loss and loss adjustment expense reserve development on a discontinued book of reinsurance assumed business. JHP&C Holding Company (parent) has agreed to indemnify the Company for uncollectible losses and allocated loss adjustment expenses resulting from the insolvencies of reinsurers who have assumed part of this discontinued book. Excluded from the indemnification is JHIB. Previous to reaching the limit on the Aggregate excess of loss cover, USF&G and Fireman's Fund had also been excluded.

The second contract with JHIB calls for the cession of all remaining loss and loss adjustment expense reserves as of July 1, 1985, along with all subsequent loss and loss adjustment expense reserve development on a discontinued book of excess and surplus lines business. Uncollectible ceded losses and loss adjustment expenses were also ceded to JHIB as part of this treaty.

The Company continues to hold funds associated with the JHIB treaties and pay interest on those funds.

Reinsurance ceded as shown above, except the John Hancock, Bermuda business, is primarily placed with United States insurance companies which are authorized to transact business in the state of Washington or through the Underwriters of Lloyd's, London. A portion of the risks placed through the London market are covered by British and alien carriers and are properly collateralized. John Hancock, Bermuda maintains funds on deposit with Unigard Security sufficient to cover all ceded liabilities.

EMPLOYEE RELATIONS AND WELFARE

Unigard Security Insurance Company (USIC) has no current employees. USIC has a service agreement with John Hancock Management Company (JHMC) which provides the employee services. The Company has a small liability for post retirement benefits for pre-July 1, 1993 retirees.

Most Companies within the John Hancock Group participate in a Benefits Program. It includes a Defined Benefit Retirement Plan, and a Flex Plan and Flexible Spending Account. Under this plan, employees are given credits to spend on the various options. The Company provides a Life Insurance Policy in the amount of the salary up to \$50,000 at no cost. The employees may then spend their credits on various options for Medical, Long-term Care, Dental, Vision Care, additional Life Insurance, Life Insurance for their dependents, and Survivor Income Benefits. The Company requires that the employee take minimal health coverage or prove that they have equivalent coverage. Once they have selected their options, they either pay the difference in pre-tax dollars, or receive the excess as taxable income. In addition, they have the option of contributing to a Health Care reimbursement account and to a Dependent Care reimbursement account.

SUBSEQUENT EVENTS

Subsequent to the examination date the Company voluntarily surrendered sixteen Certificates of Authority no longer needed as the Continuing Operations business is running off pursuant to the terms of the sale agreement discussed under "History".

ACCOUNTING RECORDS AND PROCEDURES

The Company's general ledger, accounting journals and transaction records are prepared on-site using Great Plains Software on a Personal Computer. The Continuing Operations premiums and claims are handled by Unigard Insurance Company (UIC) on a mainframe EDP system. UIC then provides Unigard Security with the information needed to complete its Annual Statement exhibits related to that business.

The Company's securities ledger is maintained by John Hancock in Boston. The Company keeps its own record in Seattle and compares it to the information provided by Boston on a monthly basis.

The review of internal control records, questionnaires and reports prepared by management and the internal auditors revealed that, overall, internal control policies and procedures appear to be adequate. John Hancock has an internal audit department which reviews the operations of Unigard Security as deemed necessary. This includes reviewing the reinsurance assumed systems managed by Unigard Insurance Company, a former affiliate, pursuant to the terms of the Service Agreement. Unigard Security engages a Independent CPA firm to review the transactions with UIC under the terms of the sale agreement.

The trial balance, which was prepared by the Company, was traced to the various schedules and exhibits of the filed 1995 Annual Statement without exception. In addition to this test, other detailed tests were conducted on the postings of revenues, expense, asset and liability transactions. Reviews of revenue included sample tests of receipts, deposits, identification of receipts sources, and postings to general ledger accounts. Underlying data matched receipts in the samples tested. Reviews of disbursements focused on checks and wire transfers. This review included an examination of original records and authorization of payments. Reviews of asset and liability transactions included tracing and vouching to detail transaction records and other original documentation.

The Company is audited annually by an independent Certified Public Accounting firm and the work papers were used in the conduct of this examination to the extent possible.

FINANCIAL STATEMENTS

The following financial statements showing the condition of the Company as of December 31, 1995 are included in this report:

Comparative Balance Sheet

Comparative Summary of Operations and Comparative Reserves and Unassigned Funds Account

There were no examination adjustments.

Note: Failure of amounts to add to the total shown on the following financial statements is due to truncation or rounding.

UNIGARD SECURITY INSURANCE COMPANY

COMPARATIVE BALANCE SHEET

ASSETS	DECEMBER 31,		NOTES
	1995	1994	
Bonds At NAIC Amortized Value	\$262,923,573	\$275,850,945	1
Stocks:			
Mortgage Loans on Real Estate	911,061	923,288	
Real Estate:			
Investment	1,095,587	1,088,439	
Cash on Hand and on Deposit	1,846,823	819,974	
Short Term Investments	23,935,873	6,888,953	
Aggregate Write-ins for Invested Assets	<u>0</u>	<u>0</u>	
Subtotals, Cash and Invested Assets	\$290,712,917	\$285,571,599	
Agents' Balances or Uncollected Premiums:			
Funds Held by Reinsured Companies	1,264,173	1,575,374	
Reinsurance Recoverables on Loss & LAE Payments	10,382,926	14,484,894	
Interest, Dividends & Real Estate Income Due & Accrued	3,788,013	4,415,120	
Receivable from Parent, Subsidiaries and Affiliates	6,500,000	0	
Aggregate Write-ins for Other Than Invested Assets	<u>0</u>	<u>0</u>	
Total Assets	\$312,648,029	\$306,046,987	

LIABILITIES, SURPLUS & OTHER FUNDS	DECEMBER 31,		NOTES
	1995	1994	
Losses	\$0	\$0	
Reinsurance Payable on Paid Losses	1,814,243	3,054,735	
Other Expenses (Excluding Taxes, Licenses & Fees)	2,371,015	1,971,514	
Taxes, Licenses & Fees (Excluding Federal Income Taxes)	17,623	14,826	
Dividends Declared and Unpaid:			
Funds Held by Company under Reinsurance Treaties	141,574,965	137,217,988	
Amounts Withheld for Account of Others	71,252	71,652	
Provision for Reinsurance	4,283,277	3,409,491	
Net Adjust in Assets & Liabilities Due to Foreign Exchange	2,176,845	2,228,783	
Payable to Parent, Subsidiaries and Affiliates	423,050	448,691	
Aggregate Write-ins for Liabilities	<u>18,821</u>	<u>29,188</u>	
Total Liabilities	\$152,751,091	\$148,446,868	
Aggregate Write-ins for Special Surplus Funds	\$0	\$0	
Common Capital Stock	2,000,000	2,000,000	
Preferred Capital Stock	5,500,000	5,500,000	
Aggregate Write-ins for Other than Special Surplus Funds	0	0	
Gross Paid In and Contributed Surplus	117,500,000	117,500,000	
Unassigned Funds (Surplus)	<u>34,896,938</u>	<u>32,600,119</u>	
Surplus as Regards Policyholders	<u>\$159,896,938</u>	<u>\$157,600,119</u>	
Total Liabilities, Capital and Surplus	\$312,648,029	\$306,046,987	

UNIGARD SECURITY INSURANCE COMPANY

COMPARATIVE INCOME STATEMENTS

STATEMENT OF INCOME

UNDERWRITING INCOME

	1995	1994
Premiums Earned	\$0*	\$0*
DEDUCTIONS		
Losses Incurred	0	0
Loss Expenses Incurred	0	0
Other Underwriting Expenses Incurred	0	0
Aggregate Write-ins for Underwriting Deductions	0	0
Total Underwriting Deductions	<u>\$0</u>	<u>\$0</u>
Net Underwriting Gain or (Loss)	\$0	\$0

INVESTMENT INCOME

Net Investment Income Earned	\$7,772,967	\$6,078,423
Net Realized Capital Gains or (Losses)	<u>3,355,680</u>	<u>(135,435)</u>
Net Investment Gain or (Loss)	\$11,128,647	\$5,942,988

OTHER INCOME

Net Gain (Loss) from Agents/ Premium Bal Charged Off	(1,231)	(16)
Finance and Service Charges Not Included in Premiums	0	0
Aggregate Write-ins for Miscellaneous Income	<u>(1,946,574)</u>	<u>(1,817,222)</u>
Total Other Income	(\$1,947,805)	(\$1,817,238)
Net Income Before Dividends to Policyholders & FIT	9,180,842	4,125,750
Dividends to Policyholders	0	0
Net Income After Policyholders Dividends Before FIT	9,180,842	4,125,750
Federal and Foreign Income Taxes Incurred	<u>0</u>	<u>(1,909,496)</u>
Net Income	\$9,180,842	\$6,035,246

CAPITAL AND SURPLUS ACCOUNT

	1995	1994	1993	1992	1991
Surplus as Regards Policyholders, Dec 31 Prior Year	\$157,600,119	\$157,184,951	\$137,923,534	\$130,705,326	\$125,316,931
Net Income	9,180,842	6,035,246	62,039,349	13,840,942	5,453,632
Net Unrealized Capital Gains or (Losses)	56,000	(76,670)	(33,091,642)	2,062,333	4,656,883
Change in Non-Admitted Assets	(90,104)	158,151	1,328,271	(207,179)	484,167
Change in Provision for Reinsurance	(873,786)	729,509	(755,527)	(179,339)	113,367
Change in Foreign Exchange Adjustment	51,938	(423,386)	(389,365)	(1,284,837)	(83,383)
Change in Excess of Statutory over Statement Reserves	0	0	0	0	2,138,135
Capital Changes:					
Paid In	0	0	0	0	0
Transferred from Surplus (Stock Divd)	0	0	0	0	0
Transferred to Surplus	0	0	0	0	0
Surplus Adjustments:					
Paid In	0	0	0	0	0
Transferred to Capital (Stock Divd)	0	0	0	0	0
Transferred from Capital	0	0	0	0	0
Net Remittances from or (to) Home Office	0	0	0	0	0
Dividends to Stockholders (cash)	(6,000,000)	(6,000,000)	(8,500,000)	(7,000,000)	(6,600,000)
Change in Treasury Stock	0	0	0	0	0
Extraordinary Amounts of Taxes for Prior Years	0	0	0	0	0
Aggregate Write-ins for Gains and Losses in Surplus	<u>(28,071)</u>	<u>(7,682)</u>	<u>(1,369,669)</u>	<u>(13,712)</u>	<u>(774,406)</u>
Change in Surplus as Regards Policyholders for the Year	\$2,296,819	\$415,168	\$19,261,417	\$7,218,208	\$5,388,395
Surplus as Regards Policyholders, Dec 31 Current Year	\$159,896,938	\$157,600,119	\$157,184,951	\$137,923,534	\$130,705,326

*The Company is in a Run-off status.

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with statutory accounting principles or with accounting practices prescribed or permitted by the State of Washington Office of the Insurance Commissioner.

Investments: Investments in bonds are reported at amortized cost or market value based on their National Association of Insurance Commissioners (NAIC) rating. For GAAP, such fixed maturity investments are designated at purchase as held-to-maturity, trading, or available-for-sale. All of the Company's fixed maturities were designated as available-for-sale under GAAP and are reported at fair value with unrealized holding gains and losses reported as a separate component of net worth.

Market value of certain investments in bonds and stocks are based on values specified by the NAIC. This may or may not be the same as actual or estimated market values. Real Estate owned and occupied by the Company is included in investments rather than reported as an operating asset.

Nonadmitted Assets: Certain assets designated as "nonadmitted," principally furniture and equipment, are excluded from the accompanying statutory balance sheets and are charged directly to unassigned funds.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiner by the officers and employees of the Company during the course of this examination.

STATE OF WASHINGTON)
) ss
COUNTY OF KING)

She attests that the examination of Unigard Security Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Subscribed and sworn to before me this ____ day of _____, 1997.

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